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PROSECUTIONS STALLED; CIA INVOLVEMENT MAY BE REASON
BY Andrew Alexander

WASHINGTON - It seemed likely Edith Reich would face prosecution when she began talking to federal authorities in early 1982. During days of grueling questioning at the fortress-like U.S. attorney's office in lower Manhattan, the Austrian-born foreign trade representative told an incredible tale of crime, corruption and her role in one of the largest corporate frauds in recent history. She admitted arranging close to $120 million in Russian orders - nearly all phony - for goods from Dayco Corp., a big rubber and plastics manufacturing company based in Dayton, Ohio. But she was not alone in wrongdoing; she insisted in her thick European accent, and eventually up to nine others became targets of possible indictment on charges ranging from U.S. customs violations to income tax evasion. Four different federal agencies investigated, evidence was gathered for a grand jury and indictments seemed imminent.

But now three years later, the probe appears stalled amid growing speculation that those with possible criminal liability may not face prosecution because the government fears sensitive intelligence gathering secrets might be revealed if they went to trial.

That speculation is bolstered by findings of a Cox Newspapers investigation which suggest the case involves much more than a massive corporate swindle that cost Dayco's shareholders millions. Instead, it has revealed a mysterious story of international intrigue that runs all the way from the Central Intelligence Agency to the Kremlin - a story that has spawned fears among some major figures in the case that disclosure of details could cost them, or others, their lives.

Among the findings:

- That prominent New York attorney Stuart Jackson, a former law partner in a New York firm where CIA Director William Casey was counsel, has told colleagues that he engaged in intelligence gathering in the Soviet Union at Casey's urging during the period when Jackson represented Reich in her dealings with Dayco.

- That Jackson grew close to a Soviet interpreter in Moscow and, despite warnings she might be connected with the KGB, helped arrange for her to emigrate to the United States.

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- That Reich's personal business diaries, according to separate sources, may contain notations of cash payments and expensive gifts she gave to dozens of Soviet officials, some high ranking. A Justice Department lawyer in Washington said such gifts, prohibited in the Soviet Union, could also violate the U.S. Foreign Corrupt Practices Act.

- That the Soviet Embassy in Washington repeatedly urged the Kremlin to curtail business dealings with Reich in Russia. Yet she was permitted to continue doing business there and received VIP treatment during her trips to Moscow, leaving at least one Soviet official in Washington "amazed ... that she is still in some kind of connection with us."

- That the White House initiated an investigation of Reich and trading companies she controlled which eventually focused on allegations she violated export restrictions by illegally shipping equipment and parts - including encoders and communications "scramblers" - to the Soviet Union.

Few of the major figures in the case, including Reich, will comment. Most of the 35 people interviewed for this article insisted on anonymity, some fearing reprisal by the CIA or Soviet authorities.

Jackson was interviewed but declined to talk about the interpreter, whether he gathered intelligence or whether he had discussed the case with CIA director Casey.

Associate U.S. Attorney Dennison Young in New York declined to comment, as did the CIA.

But about 200 pages of FBI and CIA documents released 18 months ago under the Freedom of Information Act - all so heavily excised that even the dates are blacked out - suggest both agencies have a deep interest in the Dayco-Reich matter.

In a 19-page court affidavit defending censorship of the documents, CIA official Louis J. Dube said their disclosure could cause "serious damage to the national security" by revealing details of "certain intelligence activities conducted by the CIA."

"Certain of the employees mentioned in these documents serve under cover in sensitive positions within the agency," Dube continued. "The public revelation of their affiliation with the CIA could well be used to compromise past, present or future intelligence operations or activities; to impair the usefulness of such individuals to the agency; and/or to place their lives, the lives of members of their families, and the lives of intelligence sources they have worked with in jeopardy."

Contents of the CIA documents are so sensitive, Dube said, that he reversed an FBI decision to downgrade them from "Secret" to "Confidential."

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The censored documents have prompted seemingly endless questions by attorneys representing various parties in the case. Was Reich an agent for the CIA or FBI (through an attorney; she has denied both)? Did the CIA allow her to give gifts and money to Soviet officials so they could blackmail or "turn" them into operatives for the Americans? Did Jackson approach Casey about intelligence gathering. And finally, why no indictments?

"I'm beginning to wonder if the U.S. Attorney's office is ever going to indict Edith Reich or anybody else because they might blow the thing wide open if they do," says New York attorney Leslie Trager, who represents an insurance company that has sued Dayco in connection with the phony orders. "There's more here, obviously, than anybody knows."

"It looked like an open and shut case," adds Cincinnati attorney Douglas Cole, who recently settled a suit he brought on behalf of shareholders against Dayco following disclosure of the fake orders. "To this day, I don't understand why they (the U.S. Attorney's office) haven't moved."

At least seven other attorneys, all of whom have represented major figures in the case, have said privately they are bewildered by the absence of prosecutions.

Several say it was not for lack of evidence.

Sources familiar with the case say that in early 1983 the U.S. attorney's office, with Reich's cooperation, had federal agents stake out her fashionable Park Avenue apartment in an effort to catch an executive of a large U.S. corporation accepting a $25,000 payment he had allegedly demanded from her in return for approving an order of goods for the Soviet Union. The agents marked the bills for later identification and recorded the man's conversation as he accepted the money, the sources say, but he has never been indicted.

In another case, a former high-ranking Dayco executive offered the U.S. Attorney's office information on the fake Soviet orders controversy as well as what he believed to be financial irregularities by fellow company managers. Gene Lovorn, who left as Dayco's vice president for taxation in late summer of 1982, said he twice flew to New York, where he spent hours with agents of the IRS, FBI and assistant U.S. attorneys.

At one point, he recalls, an IRS agent told assistant U.S. attorney Jane Parver, who was handling the case then, that Lovorn "could go to the grand jury tomorrow. We wouldn't have to prep this guy or anything. We could probably get an indictment right now." But, Lovorn says, he was never called before a grand jury.

Likewise, Lovorn says that in the spring of 1983, the IRS special agent, Errol Millman, telephoned him and said he and another agent

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WOULD BE COMING TO DAYTON TO INVESTIGATE WITHIN A MONTH. ''HE EVEN ASKED ME ABOUT WHERE TO STAY CLOSE TO DAYCO AND I RECOMMENDED A HOTEL,'' SAYS LOVORN, HIMSELF A FORMER IRS SPECIAL AGENT, ''BUT I NEVER HEARD FROM THEM.''

MILLMAN DECLINES COMMENT ON THE CASE. PARVER, HIGHLY REGARDED FOR HER PROSECUTION OF FUGITIVE FINANCIER MARC RICH, LEFT THE GOVERNMENT LATE LAST YEAR TO ENTER PRIVATE PRACTICE AND DID NOT RETURN TELEPHONE CALLS.

JACKSON, A TALL AND PERPETUALLY TANNED 56-YEAR-OLD, SERVED IN THE PRESTIGIOUS NEW YORK FIRM OF ROGERS & WELLS DURING A PERIOD IN THE MID-70S WHEN CASEY WAS COUNSEL TO THE FIRM. IN 1977, JACKSON MOVED UP PARK AVENUE TO BECOME A NAME PARTNER IN THE FIRM OF BURNS JACKSON SUMMIT & SPITZER WHILE CASEY REMAINED COUNSEL TO ROGERS & WELLS BEFORE BECOMING CIA DIRECTOR IN 1981.

IT WAS DURING THAT PERIOD IN THE 1970S AND INTO THE EARLY 1980S THAT JACKSON BECAME INVOLVED WITH REICH IN HER SOVIET TRADE ACTIVITIES.

AND IT WAS DURING THEIR FREQUENT TRIPS TO MOSCOW THAT, ACCORDING TO SOURCES, HE BECAME CLOSE WITH A TALL, SANDY-HAIRED SOVIET INTERPRETER.

EDITH REICH'S DAUGHTER, JUDITH, RECALLS THE RELATIONSHIP CAUSED CONCERN AMONG HER FAMILY, WHICH SUSPECTED THE RUSSIAN WOMAN OF BEING A KGB AGENT. AT ONE POINT, SHE REMEMBERS, HER FATHER (WHO DIED IN LATE 1981) ANGRILY ADMONISHED JACKSON THAT HIS INVOLVEMENT WITH THE WOMAN COULD HURT THE FAMILY'S BUSINESS.

BUT JACKSON CONTINUED TO SEE HER AND, ACCORDING TO JUDITH REICH AND FORMER LAW PARTNERS, HELPED HER EMIGRATE TO THE UNITED STATES BY ARRANGING HER MARRIAGE TO AN AMERICAN. ONCE IN NEW YORK THE WOMAN, WHO TOOK THE MARRIED NAME HELEN JOHSON, SOON DIVORCED. ACQUAINTANCES SAY THEY DO NOT KNOW WHERE SHE IS NOW LIVING.

THE HARVARD-EDUCATED JACKSON EVENTUALLY LEFT HIS LAW FIRM IN THE SPRING OF 1982 IN A BITTER DISPUTE WITH FELLOW PARTNERS AFTER RECEIVING WHAT HE SAYS WAS ''ROUGHLY $1 MILLION'' FROM REICH THAT HE DID NOT DEPOSIT INTO THE FIRM'S GENERAL ACCOUNT. THE MATTER CAME TO A HEAD IN LATE MAY IN THE FIRM'S ART-FILLED MANHATTAN OFFICES THE DAY AFTER JACKSON, REACHED BY TELEPHONE AT LONDON'S HEATHROW AIRPORT AS HE WAS ABOUT TO BOARD A MOSCOW-BOUND PLANE, WAS ORDERED HOME TO DEFEND HIMSELF.

ACCORDING TO FELLOW PARTNERS WHO ATTENDED THE MEETING, DURING THE COURSE OF THE WIDE-RANGING SESSION JACKSON ACKNOWLEDGED THAT:

- HE HAD BEEN INVOLVED FOR SOME TIME IN GATHERING INFORMATION FOR THE CIA ON SOVIET BUSINESS OPERATIONS.

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- He had letters from CIA director Casey complimenting his intelligence work and encouraging him to continue his reports.
- Jackson had been warned that his CIA work might place his life in danger and that he had taken care to preserve his correspondence with Casey in a safe deposit box in case something happened to him.
- He acknowledged being cautioned that the Russian interpreter might be involved with the Soviet secret service.

In some ways Reich, now in her early 60s, is similar to Jackson - brilliant, hard-driving and outwardly self-assured. But unlike Jackson she has a mercurial personality that can quickly shift from shouting to pouting.

Her credibility suffered badly during the litigation with Dayco, partly because a court-ordered psychiatric examination showed she believes deep down that "she can get away with anything." Further, she failed to produce any concrete evidence to back her major claim that Dayco Chairman Richard J. Jacob conceived the fake orders scheme and demanded and received $3 million in kickbacks from $13 million in advance commissions he approved to her.

Those who know her say she has a penchant for gift-giving as a way of doing business. And although there is no evidence to support her claim Jacob got money, the company fired two executives and another resigned after it was shown she had paid them amounts ranging from $40,000 to $133,000.

"You can't trust people who won't take bribes," she once cracked to workers in the New York office of Foreign Transactions Corp., the international trading company she headed.

One source says that once before leaving for Russia Reich purchased about 30 expensive watches from Tiffany & Co., the jeweler, to be given as gifts to Soviet officials. When Reich filed for bankruptcy last fall - she listed assets of $2.6 million and liabilities of $32 million - among her debts was more than $263,000 owed to Tiffany's.

More serious are notations in her personal business diaries of cash payments to Soviet officials. One source who has seen the diaries, which are now in custody of the U.S. attorney's office, says the notations indicate several officials got tens of thousands of dollars.

Reich was once overheard saying in reference to the diaries that if Russian authorities ever found out she had been paying officials there, "I'll be killed."

As long ago as late 1982 the Soviet Embassy in Washington, worried by Reich's involvement in arranging the fake Russian orders, urged the Kremlin to halt all business dealings with her, according to a Soviet diplomat speaking on condition he not be named.

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But she continued to travel to Moscow and, according to those who accompanied her, never had to endure the long process of clearing Soviet customs. Sometimes the government even provided a limousine to take her to her hotel.

In an odd twist, daughter Judith - once in the international trade business with Edith Reich - last year entered into a secret agreement with Dayco to provide the company with information about her mother and her finances. In return, Dayco agreed not to seek legal action against Judith.

Using private investigators, Dayco has conducted a worldwide search for money it believes Edith Reich may have hidden in accounts overseas, including Switzerland. In addition to $13 million in advance commissions Dayco paid her for the phony Soviet orders, Reich has also apparently doing a sizable volume of legitimate business with the Russians.

According to daughter Judith, at the time she was in business with her mother between mid-1981 and February 1984 they placed $190 million worth of bona fide Soviet contracts with American companies other than Dayco. The total profit, she said, was $9 million.

The Dayco commissions plus the profit from the legitimate non-Dayco business meant a total of $22 million went to Reich and her companies, Foreign Transactions Corp., and an affiliate, Trachem Ltd. in London. But attorneys and investigators have been unable to trace where it all went.

Even in bankruptcy, Reich continues to live well. When she was forced out of her spacious Park Avenue apartment as part of the bankruptcy proceeding, she moved to an apartment where, according to managers, she is paying rent of more than $1,700 a month. She has continued her maid service, according to a family member, and recently made a trip to London.

Also, court records show that her bankruptcy attorneys late last year were paid a total of $150,000 in advance to represent her. The bulk of the money was in the form of checks from various Brooklyn corporations made out to her son, Michael, who endorsed them to the lawyers.

Precisely what type of non-Dayco business Reich was doing in the Soviet Union has been of interest to both the FBI and U.S. Customs agents who investigated to see if she was shipping restricted items to the Soviets.

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AN INTERNAL FOREIGN TRANSACTIONS CORP. REPORT, PREPARED IN MID-1982 BY AN EMPLOYEE AFTER HE WAS INTERROGATED BY CUSTOMS SERVICE AND FBI AGENTS, SHOWS THAT THEY ASKED HIM ABOUT AN ALLEGED SHIPMENT OF ''ENCODERS ANDOR SCRAMBLERS'' AS WELL AS UNSPECIFIED ITEMS WHICH THEY SAID HAD BEEN ''ILLEGALLY'' TAKEN INTO THE SOVIET UNION IN A SUITCASE. THE AGENTS DECLINED COMMENT AND THE EMPLOYEE, DAVID ABECASSIS, COULD NOT BE REACHED.

CURIOUSLY, THE REPORT - A COPY OF WHICH WAS OBTAINED BY COX NEWSPAPERS - QUOTES THE AGENTS AS SAYING THEIR INVESTIGATION HAD BEEN INITIATED BY THE WHITE HOUSE EVEN BEFORE THE DAYCO SCANDAL BECAME PUBLIC IN EARLY 1982.

LIKEWISE, THE ROUTING FORM ON ONE OF THE CENSORED FBI DOCUMENTS OBTAINED UNDER THE FREEDOM OF INFORMATION ACT APPEARS TO INDICATE THAT IT WAS SENT FROM FBI DIRECTOR WILLIAM WEBSTER TO THE WHITE HOUSE.

ASKED WHY THE WHITE HOUSE WOULD BE INVOLVED IN A MATTER NORMALLY HANDLED EXCLUSIVELY BY LAW ENFORCEMENT AGENCIES, A SPOKESWOMAN SAID SHE COULD OFFER NO EXPLANATION.

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